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DIRECTORATE OF INTELLIGENCE

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EUROPEAN COMMUNITY: Priorities for the Trade Round

Summary

The European Community's three principal concerns for the new trade round are agriculture, services, and Japanese trade practices. The EC Commission will conduct the negotiations for the 12 members of the Community, whose major concern is defensive: to protect the EC's Common Agricultural Policy. During the GATT ministerial beginning 15 September, we expect the Community--driven primarily by French domestic politics--to take a tough stand on how the ministerial declaration treats agriculture. EC officials believe the Community will gain substantial benefits from freer trade in services and will probably want to include this topic on the agenda and not put it on a "second track." The Community hopes to use the round to pressure the Japanese to reform their trade practices and favors adding this topic to the agenda. We believe investment, intellectual property rights, and high technology trade have little support within the EC.

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This memorandum was requested by the Office of the US Trade Representative and was prepared by [] the Office of European Analysis with [] the Office of Leadership Analysis. Questions and comments may be directed to [] Chief of the European Issues Division, []

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EC Approach to the Round

The European Community, despite initial reservations, supports the launching of a new trade round. In March 1985, the EC Council of Ministers declared EC readiness not only to participate in a new trade round but also to enlist the support of its trading partners, particularly among the LDCs (see Attachment A for declaration). Community officials recognize that the EC has a critical stake in supporting and advancing liberalized trade through the GATT. The European Community is the largest trader in the world and exports a much greater share of its GNP than does the United States--28 percent compared to 10 percent for the United States. [redacted]

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EC officials view the round as providing major opportunities for the Community. EC Commission officials believe the Community is a "superpower" in services, especially banking, information technology, and advertising, and expect substantial EC gain from freer trade in services. They also see the round as providing a good chance to counter protectionism on at least two fronts. On one side, they perceive a strong US protectionist sentiment which they hope will be dampened once the trade talks are launched. The second front is Japanese protectionism. West Europeans are irritated over their persistent trade deficit with Japan--\$11.4 billion last year--which they blame on unfair Japanese trade practices. The GATT round is viewed as an opportunity to garner support for a coordinated effort aimed at opening Japan's markets and reforming its export-oriented economy. [redacted]

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The EC's paramount concern for the round, however, particularly for the French, is defensive: to protect its Common Agricultural Policy (CAP). Although Community leaders are willing to negotiate on agriculture in the round, they have repeatedly stated they will not discuss the fundamental objectives and mechanisms of the CAP per se, such as high domestic price supports, import protection, and export subsidies. EC officials have not allowed their concern about protecting the CAP to preclude their supporting the new round in principle, and according to US Embassy reporting, Community leaders are in general agreement on a framework for conducting the negotiations by which they hope to limit damage to the CAP. They argue that no single issue should be given priority--put on the "fast track"--in order to prevent agriculture being singled out or moved to the front of the queue. In an effort to avoid a back door attack on the CAP, the EC has repeatedly stated it wants to contain GATT discussions on agriculture to one body--the Committee on Trade in Agriculture--with exclusive jurisdiction over all agricultural trade topics. Should the fundamentals of the CAP come under attack during the negotiations, EC leaders will probably rely on procedural delay and Community unwillingness to compromise on a range of issues in order to defend it. [redacted]

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EC officials believe that for the GATT negotiations to be successful, LDC concerns must be accommodated in order to forge a broad consensus of support for the round. Consequently, they would like to see parallel discussions held on LDC debt, capital flows, and exchange rate fluctuations--all major concerns to the LDCs. Furthermore, at least some Community leaders have shown a high degree of flexibility and willingness to explore compromises with the hardline LDCs, led by Brazil and India. They also believe that trade problems will have to be addressed in other international forums, such as the IMF, World Bank, and the United Nations World Intellectual Property Organization (WIPO). [redacted]

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Negotiations for the EC will be handled by the EC Commission, which has negotiating authority on trade matters (see foldout). The Commission and member-state representatives to the EC's 113 Committee on trade hash out trade policy proposals for consideration by the Council of Ministers, from which the Commission gets its negotiating mandate. The Commission's mandate is often vague or, conversely, severely restricted because of strong national interests among the 12 member states. EC Council decisions are usually by consensus, and any member with a vital interest in a particular area often can gain enough support to hold an effective veto over an issue. Commission representatives usually have broad latitude to discuss compromises, or believe they do because of vagueness in their mandates. During the GATT ministerial in Punta del Este, the Community will have key Commissioners and representatives from the 113 Committee present, along with trade ministers from each member state, making for slow and difficult EC decisionmaking. The EC's delegation to Punta del Este will probably be led by Willy De Clercq, EC Commissioner for External Affairs [redacted]

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The Issues

Protecting the CAP, liberalizing trade in services, and opening up Japanese markets are the most important issues to the Community for the GATT round. The Community is open to compromise on most issues; the major exception is agriculture (see Attachment B). [redacted]

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Agriculture

EC Officials fear negotiating on agriculture more than any other GATT topic. Farming and the rural lifestyle are tightly woven into West European society and farmers are a well-organized political force. Anything that threatens to disrupt the farm community--particularly cutting CAP subsidies--becomes a heated political issue in most EC countries. Nonetheless, West European officials are aware that reform of agricultural policies is necessary; the CAP devours about 70 percent of the EC budget--\$25.2 billion last year--and is largely responsible for the Community's recurring budget crises. West European officials want the impetus for reform to come from within the Community, however, not from

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without. Furthermore, they want internal reforms to proceed at a measured pace, in order to keep displaced farmers from aggravating the political scene and Western Europe's unemployment problem. []

France is traditionally the most zealous defender of the CAP within the Community, largely because French farmers receive over one-fifth of all CAP subsidy payments, or over \$3 billion last year. The government of Prime Minister Chirac depends heavily on the French farm vote. During the current political experiment in "cohabitation," the conservative government will be even more inclined than usual to ensure GATT discussions do not hurt its farm constituency. The derailing of progress on the ministerial declaration at Geneva in July, because of wording on agriculture, is a prime demonstration of how serious Paris considers the agriculture issue. []

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From the EC's perspective, US-EC trade relations will probably be one of the most significant influences on agricultural negotiations once the round begins. If the current truce on enlargement issues--scheduled to last through this December--breaks down, the French are likely to press for a harder EC line on agriculture. Because of member fears, the EC Commission probably will be given only a narrow and restricted negotiating mandate on agriculture. Commission negotiators probably will try to shift the focus of agricultural discussions to other countries' policies--especially the United States--and away from the CAP during the round. Furthermore, they are likely to argue that EC agriculture policies are already consistent with GATT provisions. To center the discussion on world overproduction and away from individual farm policies, we also expect the EC to suggest once again negotiating international market-sharing arrangements under GATT auspices. []

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Support for Services

The Commission and EC members generally view liberalizing services trade favorably:

- o Paris is a strong supporter, concluding that French service industries are very competitive and would gain from including services under the GATT.
- o Bonn and London also back freer trade for services.
- o Rome, in contrast, is largely disinterested because the Italian bureaucracy fears GATT negotiations could weaken its control over individual service sectors.
- o Except for perhaps Greece, other EC members are probably following the Commission on this issue.

EC Commissioner De Clerq also recently argued before the Council of Ministers that the time had come to place greater pressure on

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developing countries to accept services on the agenda for the round.

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The Community is in the process of identifying which services should be included in the negotiations and how to approach the issue. According to US Embassy reporting, the EC's strategy is to first ensure services are on the new round agenda, then decide which specific services to include under the GATT.

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In addition, EC officials have tentatively identified contracting and construction, consulting, transportation, tourism, banking, and insurance as categories for GATT coverage. Under the EC's framework, LDCs would not be required to accept every code immediately. They could join some and object to others, as long as they agree to negotiate on their objections and accept all the protocols within a set time period.

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According to the US mission in Geneva, the EC Commission GATT representative, Paul Tran, has been discussing a "two track" compromise on services for the round with Brazilian and Indian diplomats. The compromise would launch a trade round only for goods at the Punta del Este ministerial. Immediately following the ministerial, another meeting would explore the possibility of negotiating on services, but outside the GATT. Tran, however, did not consult with member states before entering into the discussions. Because the EC is still formulating its policy on services, the Commission--or perhaps only Tran-- may believe it has enough authority to at least explore compromises on services. However, because this compromise does not involve a firm commitment to launch service negotiations, it probably lacks the support of the key Community members on services--France, West Germany, and the UK--and is unlikely to be adopted as formal EC policy.

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We believe that once the round is launched, and priorities identified, services will become a contentious subject among the industrial countries. Many service industries in Western Europe are heavily regulated or are state monopolies. Either case tends to inhibit foreign entry and favor the status quo. Attempts to open markets will probably face stiff opposition from domestic West European industries who fear foreign competition, such as the West German insurance and telecommunications industries and British and French bankers.

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Continuing Pressure on Japan

The Community would like to use the round to attack Japanese trade practices and favors mentioning them specifically in the G-48

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declaration*. [REDACTED]

[REDACTED]

[REDACTED] Commission officials 25X6
are complaining that the stronger appreciation of the yen vis-a-vis the dollar compared to European currencies is causing Japanese companies to shift their exports to Western Europe. This perception, reinforced by the 28-percent volume increase in Japanese exports to the Community during the first five months of this year, almost certainly will harden the EC's position. The EC will probably once again propose placing Japanese trade practices on the agenda at Punta del Este. Failing this, EC negotiators will probably look for any opening to stress the Council of Ministers' statement that there will be no EC trade concessions during the round which benefit Japan, unless Tokyo takes effective measures to reduce its trade imbalance.

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Other Issues

Support for Standstill and Rollback. Many EC members regard a commitment not to impose additional trade restrictions during the round--termed "standstill"--as a necessary ingredient for successful negotiations, for two reasons. First, they believe it would signal LDCs that the developed countries are sincere in ensuring that Third World countries achieve significant gains from the round, and hopefully thereby winning their increased cooperation and support for the round. Second, they believe it would limit the ability of the United States to implement protectionist measures, a prime EC concern. EC officials have stated that the appropriate time for considering rollback--that is, reducing existing trade restrictions--is after GATT negotiations are launched and that rollback should not be a precondition for the round; the EC supports the G-48 draft language on this issue. After the ministerial, we expect the more protectionist members--France, Italy, Greece, Spain, and Portugal--to try to keep the EC from agreeing to major rollback concessions to protect their less competitive industries, such as

*The ministers will consider three drafts for the ministerial declaration--which will set the agenda for the round. The first is a draft supported by a majority of the GATT members (G-48). The hardline LDCs--the G-10-- have drafted their own text, which omits the "new issues"--services, investment, intellectual property rights, and high technology. Argentina has prepared yet a third draft declaration. [REDACTED]

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steel, textiles, and, especially, agriculture. Moreover, any EC commitment will almost certainly be framed in terms of rolling back only those measures that are GATT-inconsistent, to allow maneuvering room for the EC to keep some import restrictions. [REDACTED]

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Split over Textiles. The treatment of textiles after the recently negotiated Multi-Fibre Arrangement (MFA) expires in 1991 is likely to be a divisive issue within the Community and one unlikely to be quickly resolved. France and Italy probably support another MFA, with tighter restrictions, to protect their important textile and apparel industries--a position shared by Spain, Portugal, and Greece. In contrast, West Germany and the UK--with the support of the EC Commission, Denmark, and the Netherlands--believe the industrial countries can obtain greater LDC support and cooperation for the new round if the MFA is phased out and folded into the GATT. A tough posture by the LDC hardliners may incline some EC members to grant concessions on the MFA issue to keep the negotiations from stalling. Nonetheless, foreign influence is unlikely to have as much impact on Italy and France as the political clout of their domestic textile workers and firms. [REDACTED]

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Support for Graduation. London and the EC Commission want the Newly Industrialized Countries (NICs) to be "graduated" from the GATT's system of preferential treatment. British officials argue that it is unacceptable to provide LDCs with competitive export sectors preferential access to the EC markets so long as they maintain high tariffs on imports from industrial countries. EC Commission officials receive strong support from the West European business community for graduation. [REDACTED]

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Actions to Revitalize the GATT. EC officials, in public at least, have stated they would like to see measures taken to update and revitalize the GATT, such as:

- o Allowing parties the option of taking selective safeguard actions against a single country--currently a violation of GATT's most-favored-nation provision. Community leaders believe the GATT should recognize that exports from only one or a few countries often cause injury to domestic producers. Consequently, they would like this area to be the one exception to the GATT's most-favored-nation principle.
- o Improving the dispute settlement procedure. EC officials complain that present procedures are too slow, inefficient, and lack teeth; they have not formulated an agenda for specific improvements, however.
- o Reworking and strengthening the Tokyo Round codes for nontariff restrictions on trade, largely among the developed countries--especially technical standards, government procurement, and subsidies. In addition, nontariff restrictions of particular concern to LDCs, such as textile quotas, would also be addressed.

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[redacted]

We believe the Community will not be able to move very quickly on nontariff restrictions given the protectionist tendencies of many EC members. Moreover, the nontariff measure of greatest concern to LDCs is the MFA, an area where the EC is unlikely to be able to take quick action. [redacted]

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Lukewarm on other New Issues. The Community is cool to other new issues and is concerned that the United States may be overloading the GATT agenda. British, West German, Italian, and EC Commission officials have all expressed dissatisfaction with the US proposal to discuss export distortions and investment diversion caused by government policies. They fear the US proposal is too broad and includes topics--such as expropriation and consistent national treatment of foreign investment--that will provoke LDC reaction and endanger other GATT priorities, particularly services. At a minimum, the Community would like investment more narrowly focused on areas the LDCs will find less sensitive--the so-called Trade-Related Investment Measures (TRIMS), such as investment incentives, export performance requirements, and local content. Although Community officials view counterfeiting as a major problem, there is little support among West European governments and business leaders to include intellectual property rights on the GATT agenda; government officials question whether the GATT is the most appropriate forum to deal with the issue, while the business community has given the issue little attention, according to US Embassy reporting. West Europeans also are unlikely to favor adding high-technology issues to the GATT round agenda. Their primary concern in this area has been deciding how to respond to what they see as a competitive challenge from the United States and Japan. West European energies have centered on initiating cooperative programs to bolster their own high-tech base, such as EUREKA and ESPRIT, and such internal programs could appear threatened by full GATT discussions that opened their markets to a feared flood of US and Japanese high-tech products. [redacted]

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At the Ministerial

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The European Community, driven by the French, will work especially hard to protect its primary concern--agriculture--at Punta del Este. [redacted]

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[redacted] if the EC indeed decides at its early September meeting that changes to the G-48 text are necessary, EC officials will probably press for two major modifications to the draft declaration. The EC will almost certainly try to incorporate in the declaration as much of its procedural framework for agriculture as possible, especially limiting all discussions on agriculture to one GATT forum. In addition and more important to maintaining the fundamental CAP mechanism, we believe they will object to the draft's reference to increasing discipline over the use and the phased reduction of--within an agreed time frame--subsidies. Instead, we believe the French in particular prefer very general wording on agriculture in order to avoid negotiations focusing specifically on the EC's program. How much the Community is willing to compromise in the end may come down to whether or not EC members--particularly the French--are prepared to spoil the launch of the round over the language on subsidies. While French officials have indicated to their US counterparts their desire to avoid spoiling the process leading up to Punta del Este, we cannot rule out an EC--that is, French--refusal to accept a declaration launching the round if it believes the CAP will be isolated. [redacted] 25X1

Most EC officials view services as a priority and probably want the ministerial draft to include services on the agenda, and not be put on a second track. The two-track approach pushed by Brazil and India does not guarantee services will be a subject for negotiations under the GATT, which probably makes it unacceptable to Paris, London, and Bonn. Nevertheless, because EC officials want widespread LDC support for the new round, we expect Community officials to continue exploring compromises on services up to and during the ministerial. [redacted] 25X1

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[REDACTED]

During a conversation with US officials, French Trade Minister Michel Noir indicated the French, at least, are likely to press for inclusion of Japanese trade practices on the new round agenda at Punta del Este. While this issue is of growing concern to the Community, we believe the EC would not hold up launching the round if specific wording on Japan is not in the declaration. Discussions on nontariff restrictions are likely to focus on Japan anyway and most EC officials probably believe that for this reason it is not necessary to single out Japan before discussions begin. We believe Community officials view other topics as secondary to the major issues of agriculture, services, and Japanese trading practices. As such, they will be more flexible on how the ministerial declaration treats them. [REDACTED]

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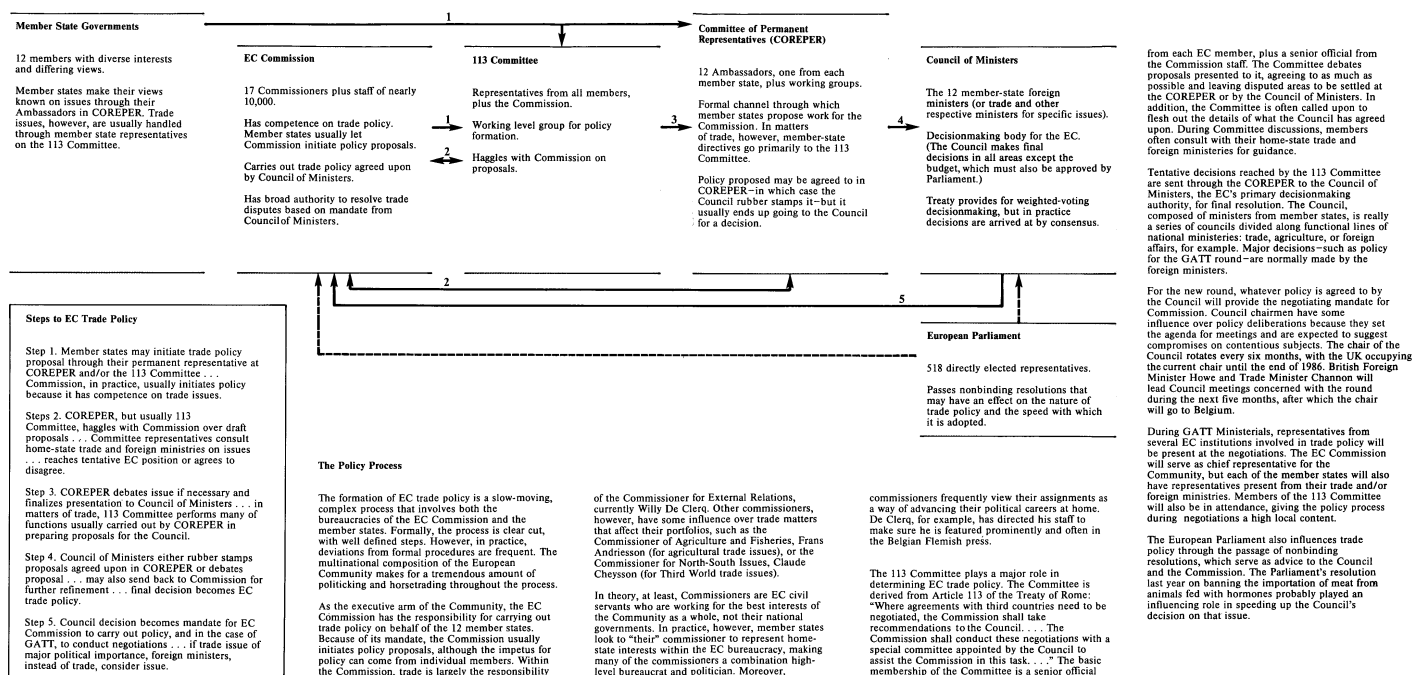
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European Community: Process of Trade Policy Formation



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ATTACHMENT A
EC Council Declaration
on a
New Round of GATT Trade Negotiations
March 21, 1985

1. Suggestions for a new round of multilateral trade negotiations have been the subject of careful international consideration for the past two years. They received particular attention at the meeting of the OECD Ministers in May 1984, at the London economic summit in June 1984 and at the meeting of the Contracting Parties of the GATT in November 1984. Such multilateral negotiations have been a regular feature of the GATT since its inception.

2. The Council recalls that a new round, while of the utmost importance to a strengthening of the open multilateral trading system and to the expansion of international trade, will not of itself be sufficient to such purposes. Thus the Community, in the perspective of a new round, and

while working to achieve the broad consensus requisite for its launching, will urge that the following separate but related desiderata receive serious parallel consideration. Thus:

(a) In order to ensure credibility, reaffirmation will be necessary of the international commitments variously accepted at the Williamsburg and London economic summits, and at the last meeting of OECD Ministers in Paris and of the GATT Contracting Parties in Geneva:

(i) effectively to halt protectionism and resist continuing protectionist pressures (standstill);

(ii) to relax and dismantle progressively trade restrictions as economic recovery proceeds (roll-back);

(iii) to pursue the 1982 GATT work programme as complemented by the decisions of the Contracting Parties in November 1984.

(b) Solutions to imbalances whose origin lies in the monetary and financial areas cannot be found in trade negotiations. Determined, concerted action is required to improve the functioning of the international monetary system and the flow of financial and other resources to developing countries. Results in the monetary and financial areas should be sought in parallel with results in the trade field.

3. Despite previous trade rounds, Japan's growth of imports of manufactured goods has nowhere near matched her export growth. Like concessions to Japan have not produced like results, and in consequence, an imbalance of benefits currently exists between Japan and her principal partners. It is therefore a pressing political necessity for Japan to bring her import propensity into line with that of her partners, by means of domestic structural and other adjustments as well as by measures at the frontier.

4. As regards negotiations on agriculture in the new round, the Community is ready to work towards improvements within the existing framework of the rules and disciplines in GATT covering all aspects of trade in agricultural products, both as to imports and as to exports, taking full account of the specific characteristics and problems in agriculture. The Council is determined that the fundamental objectives and mechanisms both internal and external of the CAP shall not be placed in question.

5. On possible new topics for negotiation, the Council considers that trade in services seems suitable for inclusion. Problems of counterfeit goods and the defence of intellectual property also deserve consideration. Other possible new items should be examined on their merits.

6. The Council affirms the need for reciprocity and a better balance of rights and obligations as between all contracting parties. The Council considers that too selective an approach to individual negotiating points should be avoided. A balanced package of topics for negotiations should be agreed in which all participants will find advantages for themselves. In principle items should be negotiated and the results implemented in parallel and not in succession.

7. Against this background, and in the light of the desiderata and other relevant considerations mentioned above, the Council considers that a new round would help to promote world economic recovery and growth and would reinforce the multilateral structures and disciplines of the GATT. Subject to the establishment of an adequate prior international consensus on objectives, participation and timing, the Community declares its readiness to participate in the launching of such a new round. The Community will accordingly now enlist the support of its trading partners, particularly among the developing countries, to this end. The Community further proposes that the new round should be inaugurated in Brussels. The Community recognizes that a precise date for the formal launching of a new round cannot be fixed now. A step-by-step approach will best permit solid progress to be made. To initiate the process the Community renews its proposal of last May for an *ad hoc* GATT meeting, in the coming months, preferably at the level of senior officials from capitals, to intensify consultations about a new round and with the objective that a broad consensus on subject matter and participation should be secured at the earliest possible date.

GATT ROUND: EC COMMISSION AND MAJOR COUNTRY VIEWS

	Agriculture	Services	Japanese Trade Policy	Textiles	New Issues	Additional Concerns
EC Commission	Willing to negotiate if limited to one forum and fundamentals of CAP not singled out.	Strong supporter. Sees major benefits for EC if in new round.	Wants to press Japan to increase imports.	Supports deciding in new round.	Weak support only for trade-related investment enhancement measures (TRIMS). Concerned about counterfeiting, but not sure GATT is the best forum.	Supports standstill and LDC graduation as way to ward off US protection.
France	Staunchest defender of CAP. Fears US attempt to dismantle CAP.	Strong supporter. Believes its service sector strong and competitive.	Supports Commission.	Wants MFA continued. Probably won't support quick return of textiles to GATT.	Probably little support for investment and intellectual property rights.	Wants to build consensus of LDC support for round.
Italy	Generally supports French position.	Disinterested.	Supports Commission.	Position similar to France.	No support for investment. Believes US overloading GATT agenda.	Also wants LDC support for round.
United Kingdom	Views round as complementary to its efforts within EC to reform CAP.	Supports issue for round.	Supports Commission.	Wants textiles folded into GATT to help get LDC support for new round.	Fears investment position could endanger services.	Wants LDC graduation and faster dispute settlement.
West Germany	Statements support reform. Wants to proceed slowly, however, since its farmers major CAP beneficiaries.	Supports issue for round.	With own large trade surplus, afraid sharp criticism of Japan could backfire on it. Recent wavering indicates Bonn may also become Japanese critic.	Same view as UK.	Weak support for trade-related investment measures. Some support for intellectual property rights.	Need some concession to LDCs to get their support, such as on textiles and standstill of protectionist measures during round.